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**OIL AND GAS LEASE**  
(Paid-Up Lease-No Surface Use)

This Oil and Gas Lease is made on May 22, 2008, between **SECURITY PORTFOLIO IV, L.P.** (hereafter called Lessor), whose address is 1223 N. Rock Rd., Suite 200, Wichita, Kansas 67206, and **CARRIZO OIL & GAS, INC.** (hereafter called Lessee), whose address is 1000 Louisiana, Suite 1500, Houston, Texas 77002.

1. **Grant.** In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases unto Lessee the subsurface only of the following described land (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, producing, and marketing oil and gas:

2.9379 acres, more or less, out of the A. Newton Survey, A-1161, Tarrant County, Texas, described as Lot 124 of the A. Newton Addition to the City of Arlington, as per plat thereof recorded in Cabinet A, Slide 2586, Tarrant County Plat records, including any and all rights to minerals underlying adjacent roads.

This Lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the Land, whether the same be in said survey or surveys or in adjacent surveys, although not included within the boundaries of the land particularly described above. If any additional acreage is included in this Lease pursuant to the foregoing sentence, then bonus shall be calculated and paid as to said additional acreage on the same terms as it is calculated and paid for the land specifically described above, and this Lease shall be deemed to include all said additional acreage.

2. **Primary Term.** This Lease is for a term of three years from this date (called Primary Term) and as long thereafter as oil or gas is produced by Lessee in paying quantities from the Land.

3. **Option.** Lessee is hereby granted the exclusive option, to be exercised prior to the expiration of the Primary Term, of extending this Lease for an additional two (2) years as to all or any portion of the Land. In order to exercise this option, Lessee is required to pay Lessor additional consideration in an amount equal to two-thirds (2/3) of the original bonus paid to Lessor for signing this Lease. If the original bonus included multiple payments, said option amount shall be equal to two-thirds (2/3) of the total of all payments received. In the event the option period is exercised as herein provided, it shall be considered for all purposes as though this Lease originally provided for a term of five (5) years. Payment shall be deemed properly and timely received if sent by mail, overnight delivery, personal delivery, or other agreed method before the

expiration of the Primary Term. If this Lease is extended as to only a portion of the Land, Lessee shall designate such portion by a recordable instrument.

**4. Minerals Covered.** This Lease covers only oil and gas. The term "oil and gas" means oil, gas, sulfur, and other liquid and gaseous hydrocarbons produced through a well bore.

**5. Royalty.**

(a) As royalties, Lessee agrees:

(1) To deliver free of cost to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, 25% (the "Royalty Fraction") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time, Lessee shall pay to Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other hydrocarbons are run from the Lease in the general area in which the Land is located.

(2) To pay to Lessor:

(i) On gas produced from the Land and sold by Lessee or used on or off the Land and to which the following subparagraphs (ii) and (iii) do not apply, the Royalty Fraction of the market value at the point of sale, use, or other disposition.

(ii) On gas produced from the Land that is processed in a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the higher of the Royalty Fraction of the market value of the gas at the inlet to the processing plant, or the Royalty Fraction of the market value of all processed liquids saved from the gas at the plant plus the Royalty Fraction of the market value of all residue gas at the point of sale, use, or other disposition.

(iii) On gas produced from the Land that is processed in facilities other than a processing plant in which Lessee or an affiliate of Lessee has a direct or indirect interest, the Royalty Fraction of the market value at the plant of all processed liquids credited to the account of Lessee and attributable to the gas plus the Royalty Fraction of the market value of all residue gas at the point of first sale, use, or other disposition.

(b) If gas produced from the Land is sold by Lessee pursuant to an arms-length contract with a purchaser that is not an affiliate of Lessee, and for a term no longer than that which is usual and customary in the industry at the time the contract is made, then the market value of the gas sold pursuant to the contract shall be the total proceeds received by Lessee in the sale, subject to the provisions of paragraph 4(c) below.

(c) The market value of gas will be determined at the specified location by reference to the gross heating value (measured in British thermal units) and quality of the gas. The market value used in the calculation of oil and gas royalty will never be less than the total proceeds received by Lessee in connection with the sale, use, or other disposition of the oil or

gas produced or sold. For purposes of this paragraph, if Lessee receives from a purchaser of oil or gas any reimbursement for all or any part of severance or production taxes, or if Lessee realizes proceeds of production after deduction for any expense of production, gathering, dehydration, separation, compression, transportation, treatment, processing, storage, or marketing, then the reimbursement or the deductions will be added to the total proceeds received by Lessee.

Royalty will be payable on oil and gas produced from the Land and consumed by Lessee on the Land for compression, dehydration, fuel, or other use. A sale of gas to an affiliate of Lessee will not be considered a sale, and the point of first sale of gas is the point at which the gas is first sold to an unaffiliated third party in an arm's length transaction.

(d) If Lessee compresses, transports, processes, or treats gas produced from the Land, Lessor's royalty shall not bear any of the costs associated therewith. If a third party that is not an affiliate of Lessee, compresses, transports, processes, or treats gas produced from the Land, Lessor's royalty will bear its proportionate share of costs and expenses associated therewith, but the price charged for compression, transportation, processing, and treatment shall not exceed the price that would be paid under similar circumstances in an arms-length transaction between unaffiliated parties.

(e) Lessor shall be paid the Royalty Fraction of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes related to Lessor's share of production or payments under the terms of this Lease; provided that if Lessor receives a take-or-pay payment or similar payment for gas that has not been produced, and if the gas is subsequently produced, Lessor will only receive its Royalty Fraction of any payments made for make-up gas taken pursuant to the take or-pay provision or similar provision.

(f) Lessee must disburse or cause to be disbursed to Lessor its royalty on production from a particular well not later than 90 days after completion of the well, in the case of an oil well, or after the pipeline connection, in the case of a gas well. Thereafter, Lessee must disburse or cause to be disbursed to Lessor its royalty on production by the last day of the second month after the month of production. If not paid when due, Lessor's royalty will bear interest at the maximum lawful rate from due date until paid, which amount Lessee agrees to pay. Acceptance by Lessor of royalties that are past due will not act as a waiver or estoppel of its right to receive interest due thereon unless Lessor expressly so provides in writing signed by Lessor. Should Lessee fail at any time to pay royalty when due, Lessor may give Lessee written notice detailing the particulars of the default, and if the default is not cured within 60 days of actual receipt of the notice of the default, Lessor shall have, in addition to all other remedies, the right to terminate this Lease. If Lessor's interest in the Land is subject to a deed of trust or other encumbrance, Lessee may not withhold payment of royalty to Lessor unless there is an assignment of royalty from Lessor to the lien holder or unless Lessor is in default.

(g) As used in this Lease, "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint

venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(h) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable for payment to Lessor for and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

6. **Surface Use.** Lessee is prohibited from using the surface of the Land for any purpose, but Lessor grants Lessee a subsurface easement whereby Lessee may engage in directional exploration, drilling, completion, production, and marketing operations and related activities beneath the Land from an operations site located on the surface of other land. Any directional drilling must penetrate the Land sufficiently below the surface as to not interfere with the present or future use of the surface of the Land for commercial or residential use, and in no event may the directional drilling penetrate the Land less than 500 feet below the surface. A directional well drilled under this provision shall be considered to be located on the Land.

7. **Shut-in Royalty.** If at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days all wells are shut in or production therefrom is not being sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of twenty-five dollars per net mineral acre then covered by this lease, such payment to be made to Lessor on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease. All shut-in royalty payments under this lease shall be paid or tendered directly to Lessor at the above address, or its successors, regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor by deposit in the U. S. Mails in a stamped envelope addressed to the Lessor at the last address known to Lessee shall constitute proper payment. Notwithstanding any provisions hereof to the contrary, it is expressly agreed and understood that Lessee shall not have the right to maintain this lease in force and effect after the expiration of the primary term hereof by payment of shut-in gas royalty for any one period greater than two (2) consecutive years, or, three (3) cumulative years during times all wells are physically and actually shut-in during any fifteen (15) year period.

**8. Continuous Development.**

(a) If, at the expiration of the Primary Term, oil or gas is not being produced from the Land or on acreage pooled therewith, or this lease is not otherwise maintained, but Lessee has commenced the actual drilling of a well in a unit including the Land, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with due diligence with no cessation of more than 60 days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purposes of this Lease, (i) the term "operations" means operations for any of the following: drilling, testing, completing, reworking, recompleting, deepening, plugging back, or repairing of a well in search for or in the endeavor to obtain production of oil or gas, and (ii) the term "commencement of actual drilling," and similar terms, means the penetration of the surface with a drilling rig capable of drilling to the anticipated total depth of the well.

(b) After the Primary Term, or upon completion of any well being drilled at the end of the Primary Term, whichever is later, if this lease is not otherwise maintained, this Lease will terminate to all depths 100 feet below the stratigraphic equivalent of the base of the deepest producing formation. After production is established, if the production ceases from any cause, if this lease is not otherwise maintained, this Lease will terminate unless Lessee commences operations for reworking on the well or drilling a replacement well within 60 days after the cessation of production, in which case the Lease will continue in force as long as the operations are prosecuted with no cessation of more than 60 consecutive days, and if they result in production, so long thereafter as there is production.

**9. Pooling.** Lessee shall have the right to pool the Land with contiguous acreage to form pooled units for the production of oil and gas or either of them. A pooled unit for oil may not exceed 40 acres. A pooled unit for gas may not exceed 640 acres plus a tolerance of 10%. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit and delivers a copy of the document to Lessor. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production from the portion of the Land included in the pooled unit. The provisions of this Lease that provide for termination of the Lease insofar as the Lease covers depth below producing formations and other provisions will apply to Land in the unit. There shall be allocated to the Land included in the unit that prorated portion of the production from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. No part of the Land may be included in a pooled unit unless all of the Land is included in the unit.

**10. Assignments.** Lessor is granting rights to Lessee that Lessor would not grant to others. Therefore, prior written approval of Lessor is required for any assignment or sublease of operations of this Lease. All assignments and subleases must require the assignee or sublessee to assume all of Lessee's obligations under this Lease, but Lessee will remain liable for its obligations regardless of any assignment or sublease by it.

11. **Force Majeure.** Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money), from conducting drilling or reworking operations on the Land, or from producing oil or gas, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, any federal or state law, or any rule or regulation of governmental authority, or other similar cause as set forth above (other than financial reasons). This paragraph is, however, in all things subject to the limitations of time during which this Lease may be continued in force by the payment of shut-in gas royalties.

12. **No Warranties.** Lessor makes no warranty of any kind with respect to title to the Land. By acceptance of this Lease, Lessee acknowledges that it has been given full opportunity to investigate and has conducted sufficient investigation to satisfy itself as to the title to the Land, and Lessee assumes all risk of title failures. If Lessor owns an interest in the Land less than the entire fee simple estate, then the royalties (including shut-in royalties) payable hereunder will be reduced proportionately.

13. **Notices.** All notices will be deemed given and reports and documents will be deemed delivered if sent by personal delivery, overnight mail, or certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown for each party. Any party may designate a new address by proper notice to the other party or parties. Any change of address shall not be effective until 30 days after notice has been actually received.

14. **Attorney's Fees.** In the event that Lessor or Lessee are required to employ legal counsel for the enforcement of any provision of this Lease and prevails, Lessor or Lessee will be entitled to recover reasonable attorney's fees, court costs, and related expenses.

15. **Insurance.** At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its activities on the Land, including any work performed on its behalf by contractors, subcontractors, and others, naming Lessor and related individuals and entities designated by Lessor as additional insureds. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$5,000,000.

16. **Indemnity. OTHER THAN LESSOR'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR NUISANCE, FOR INJURY TO OR DEATH OF PERSONS AND FOR LOSS OR DAMAGE TO PROPERTY, OR ANY OF THEM, INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RE-**

SULTING FROM LESSEE'S ACTIVITIES OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

17. **Dispute Resolution.** In the event of a dispute under this Lease, the parties agree to attempt to resolve the dispute through good faith mediation to be held in Tarrant County, Texas, within a reasonable time after the dispute becomes known.

18. **Miscellaneous Provisions.**

(a) In the event this Lease expires for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

(b) Nothing in this Lease negates the usual implied covenants imposed upon Lessee.

(c) Lessee will conduct all of its activities in compliance with the rules of the Railroad Commission of Texas and federal and state environmental laws and regulations. Upon request by Lessor, other than documents available to the public, Lessee shall furnish to Lessor copies of applications to drill, daily drilling reports, well tests, completion reports, plugging records, gas purchase contracts, and production reports. Lessor has the right, personally or by representative, at Lessor's risk, of access to the derrick floor to observe all operations on all wells drilled on the Land. Lessor will have the right to inspect and take samples of all cores and cuttings and witness the taking of all logs and drill stem tests. Lessee will divulge to Lessor correct information as requested by Lessor as to each well, the production therefrom, and such technical information as Lessee may acquire. Lessor has the right to be present when wells or tanks are gauged and production metered and has the right to examine all run tickets and to have full information as to production and runs and to receive copies of all run tickets upon request.

(d) The term "production" and "producing" mean production and producing in paying quantities. No obligation of Lessee to pay money under this Lease will be excused or delayed by reason of Force Majeure. Lessee's obligations to pay money under this Lease are to be performed in Tarrant County, Texas. Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this Lease unless the intent to do so is expressly stated in the document. Lessee agrees to furnish to Lessor relevant copies of each title opinion or report obtained by Lessee that covers all or any part of the Land together with a copy of each title curative document obtained by Lessee.

(e) Lessor shall have the right to inspect and copy all records of Lessee relating to this Lease, operations conducted on the Lease, the sale and marketing of production from

the Lease, and the payment of royalties, including the right to audit Lessee's books insofar as they relate to the foregoing, but such right shall not be exercised more than once in a one year period.

(f) If the Land presently has an agricultural or open space exemption or similar exemption or classification for ad valorem tax purposes, and if this Lease or Lessee's activities cause the imposition of rollback taxes, Lessee agrees to hold Lessor harmless from any and all of the additional taxes, penalties, and interest.

(g) This Lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns when fully signed and acknowledged by Lessor and Lessee and a copy is delivered to Lessor.

Executed on the date first written above.

LESSOR:

Security Portfolio IV, L.P.

By:

Name: Stephen L. Clark  
Title: Managing Partner

LESSEE:

Carizzo Oil & Gas, Inc.

By:

Name: Eli J. Film  
Title: Editor

STATE OF KANSAS

COUNTY OF Sedgwick

This document was acknowledged before me on May 22, 2008, by David Harder, STEPHEN L. CLARK of Security Portfolio IV, L.P., a Kansas limited partnership, on behalf of the partnership.

Sharon K. Pack  
Notary Public, State of Texas Kansas

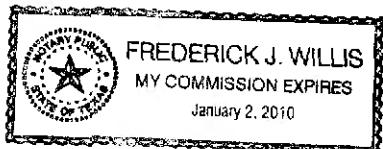
224622.7



STATE OF TEXAS

COUNTY OF Tarrant

This document was acknowledged before me on August 19th, 2008, by  
Edute Jenkins, Agent of Carrizo Oil & Gas, Inc., a  
corporation, on behalf of the corporation.



Frederick J. Willis

Notary Public, State of Texas

Remarks:

F6J

3754 Broken Bow  
Belton, TX 76513

224622.7



EGJ  
3754 BROKEN BOW

BELTON TX 76513

Submitter: EGJ ENTERPRISES INC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
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FORT WORTH, TX 76196-0401

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By: \_\_\_\_\_



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